



**DEFENSE CONTRACT AUDIT AGENCY**  
**DEPARTMENT OF DEFENSE**  
8725 JOHN J. KINGMAN ROAD, SUITE 2135  
FORT BELVOIR, VA 22060-6219

IN REPLY REFER TO

PPD 730.5.45.1

May 20, 2005  
05-PPD-039(R)

**MEMORANDUM FOR REGIONAL DIRECTORS, DCAA**  
**DIRECTOR, FIELD DETACHMENT, DCAA**

**SUBJECT: Audit Guidance on the Executive Compensation Cap for Contractor Fiscal Years 2005 and Beyond**

The Fiscal Year 1998 Defense Authorization Act established a new executive compensation cap for contractor fiscal year (CFY) 1998 and beyond. The Act directed the Office of Federal Procurement Policy (OFPP), under the Office of Management and Budget (OMB), to set the amount of the cap and revise the cap, as warranted. The enclosed *Federal Register* notice (70 FR 23888, dated May 5, 2005) sets the cap amount for CFY 2005 and beyond at \$473,318. The \$473,318 cap applies to costs incurred after January 1, 2005, and to all defense and civilian agency contracts covered by the FAR cost principles, including those contracts awarded prior to the enactment of the new cap. The cap amount is to be used for CFY 2005 and subsequent CFYs, unless and until revised by OMB. For compensation of senior executives covered by the cap, the auditor should allow no more than \$473,318 in the pricing of each executive for CFY 2005 and all subsequent contractor fiscal years. No escalation of the \$473,318 cap for years beyond 2005 is warranted because the language of the *Federal Register* notice states the amount is for all subsequent years, unless and until revised by OMB. The new cap applies to compensation and senior executives as defined in FAR 31.205-6(p)(2)(i) and (ii), respectively.

Questions regarding this memorandum should be directed through the regions to the Headquarters, Policy Programs Division, at (703) 767-2270.

/Signed/  
Robert DiMucci  
Assistant Director  
Policy and Plans

Enclosure:

*Federal Register* Notice, 70 FR 23888, dated May 5, 2005

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FEDERAL REGISTER

Notices

EXECUTIVE OFFICE OF THE PRESIDENT

Office of Management and Budget (OMB)

Office of Federal Procurement Policy (OFPP)

**Determination of Executive Compensation Benchmark Amount Pursuant to Section 39 of the Office of Federal Procurement Policy (OFPP) Act (41 U.S.C. 435), as Amended**

70 FR 23888

**DATE:** Thursday, May 5, 2005

**ACTION:** Notice.

**SUMMARY:** The Office of Management and Budget (OMB) is hereby publishing the attached memorandum to the heads of executive departments and agencies concerning the determination of the maximum "benchmark" compensation amount that will be allowable under government contracts during contractors' FY 2005--\$ 473,318. This determination is required under Section 39 of the Office of Federal Procurement Policy (OFPP) Act (41 U.S.C. 435), as amended. The benchmark compensation amount applies equally to both defense and civilian procurement agencies.

**FOR FURTHER INFORMATION CONTACT:** Rein Abel, Office of Federal Procurement Policy, (202) 395-3254.

David H. Safavian,

*Administrator.*

**Memorandum for the Heads of Executive Departments and Agencies**

*Subject:* Determination of Executive Compensation Benchmark Amount Pursuant to Section 39 of the Office of Federal Procurement Policy (OFPP) Act (41 U.S.C. 435), as amended.

This memorandum sets forth the "benchmark compensation amount" as required by Section 39 of the Office of Federal Procurement Policy (OFPP) Act (41 U.S.C. 435), as amended. Under Section 39, the benchmark compensation amount is "the median amount of the compensation provided for all senior executives of benchmark corporations for the most recent year for which data is available." The benchmark compensation amount established by Section 39 limits the allowability of compensation costs under government contracts. The benchmark

compensation amount does not limit the compensation that an executive may otherwise receive. This amount is based on data from commercially available surveys of executive compensation that analyze the relevant data made available by the Securities and Exchange Commission. More specifically, as required by Section 39 of the OFPP Act, the data used is the median (50th percentile) amount of compensation accrued over a recent 12 month period for the top five highest paid executives of public-traded companies with annual sales over \$ 50 million. After consultation with the Director of the Defense Contract Audit Agency, we have determined pursuant to the requirements of Section 39 that the benchmark compensation amount for contractors' Fiscal Year 2005 is \$ 473,318. This amount is for Fiscal Year 2005 and subsequent contractor fiscal years, unless and until revised by OMB. The benchmark compensation amount applies to contract costs incurred after January 1, 2005, under covered contracts of both the defense and civilian procurement agencies as specified in Section 39 of the OFPP Act (*41 U.S.C. 435*), as amended.

Questions concerning this memorandum may be addressed to Rein Abel, Office of Federal Procurement Policy, on (202) 395-3254.

**David H. Safavian,**

*Administrator.*

[FR Doc. 05-8950 Filed 5-4-05; 8:45 am]

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